MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2017/2018

BMR3134 – STRATEGIC MARKETING

(All sections / Groups)

15th MARCH 2018
2.30 p.m – 4.30 p.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 5 pages with 4 Questions only.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

ANSWER ALL QUESTIONS

SHISEIDO IN CHINA

Shiseido is the largest cosmetics manufacturer in Japan. It was founded in 1872 by Arinobu Fukuhara, who resigned from the Japanese navy to open Shiseido Pharmacy Japan's first Western-style pharmacy in Tokyo. At that time, the Japanese relied on Chinese herbal remedies, not Western drugs. In 1878, the company started manufacturing its own pharmaceutical products and later moved into cosmetics. Shiseido sought to combine Western technology with natural Asian ingredients.

Shiseido started the voluntary chain store system in 1923. Under this system, the stores operated by independent owners did not have to pay franchise fees to join, and the owners were free to leave at any time. However, these stores were required to provide exclusive retail space for Shiseido, and the products had to be sold through consultative selling by trained staff provided by Shiseido. Shiseido opened thousands of stores in Japan and remained the market leader, despite the entry of and intensified competition from Western cosmetics companies. The Shiseido chain store system also acted as an information medium to transmit the latest beauty information, including knowledge about skin care, fashion, and hairstyle trends to Japanese women throughout the country.

INTERNATIONAL EXPANSION

In 1957, the company expanded overseas to Taiwan, and then to Singapore, Hong Kong, Hawaii, and Italy. In 1980, Shiseido entered Germany with a wholly owned subsidiary. It moved into the U.K. market in 1986, selling through departmental stores. Shiseido bought Carita S.A., a prestigious French beauty salon in Paris, and formed a wholly owned subsidiary in France in 1990. In 1988, Shiseido entered the U.S. hair salon market by acquiring Zotos International. This was followed by other acquisitions. The saturated Japanese cosmetics market made overseas business the key driver for growth. In 2011, foreign sales accounted for 42.9% of Shiseido's total sales.

SHISEIDO IN CHINA

In 1981, Shiseido was allowed by the Beijing government to import its products from Japan and sell them at some tax-free departmental stores and hotels in Beijing. At that time, these stores were accessible only to expatriates, foreigners, and the local elite. Ordinary local citizens were not allowed to visit these stores.

In 1983, Shiseido started manufacturing shampoos and conditioners in China under a technology cooperation agreement, selling these toiletries under the brand name Hua Zi. The success of the products led to the formation of a joint venture company in 1991 Shiseido Liyuan Cosmetics Company (SLC)—between Shiseido and a local company, Liyuan Corporation, a state-owned enterprise associated with the Beijing government.

Continue...

The SLC joint venture later decided to develop a cosmetics brand just for Chinese consumers. A French sounding name Aupres was chosen, and the cosmetics and skincare products were priced high and targeted at the top one percent of the Chinese population. The Shiseido name was put in front, below the Aupres name". The products were distributed only through the Chinese departmental stores.

The brand was advertised mainly in magazines at the initial stage but later, television advertising was used in Beijing and Shanghai. These advertisements featured local models, in contrast to Shiseido's imported products that featured foreign models. The imported Shiseido brands handled by SLC included Revital, The Skincare, and UV White. The Aupres brand was successful and sold in 350 department stores throughout China in 2004. It constituted 80 percent of SLC sales and 60 percent of Shiseido's sales in China in 2003. One of the main problems facing Shiseido in China is product counterfeiting, which sometimes affects wholesale counters in departmental stores. Local police are being roped in to combat this problem.

In 1998, Shiseido formed a manufacturing joint venture with China International Trust and Investment Corporation (CITIC) called Shanghai Zotos CITIC Cosmetics Company (SZC). SZC produced medium-priced cosmetics brands such as Za, Pure Mild China, UNO, ASPLIR. WHITIA, and SELFIT, and sold them at special sales corners in departmental stores and at cosmetics specialty stores through wholesalers. In July 2003, Shiseido started selling its high-end toiletries by importing them directly from Japan through its Japan-based subsidiary FT Shiseido Company Limited. In early 2011, Shiseido repositioned its Cle de Peau Beaute brand and launched it in the Japanese market, clearly aimed at the ultra-affluent consumers. Shiseido planned to roll out this newly innovated product in 11 countries, including China in the later part of 2011. Shiseido was chosen as the official cosmetics brand for the Chinese delegation for the Sydney and Athens Olympic Games in 2000 and 2004, respectively.

VOLUNTARY CHAIN STORES AND OTHER CHANNELS

The sales of cosmetics in departmental stores in China had been increasing. However, the number of privately managed cosmetics stores had been on the rise as well. Shiseido decided to duplicate its successful Japanese voluntary specialty chain stores concept in China and engaged privately-managed cosmetics stores to sell its products under the Chinese joint venture SLC. It started a holding company Shiseido China Company Limited in 2004 to support and oversee all its businesses in China, including the SLC and SZC.

The voluntary chain system in China helps to contribute to the local economy by encouraging private enterprise, while at the same time enhancing the beauty and health of Chinese women. As the first step. Shiseido opened a directly managed store Huan Cai Kong Jian in Shanghai in September 2003, which served as the model for other

Continue...

privately-owned stores that would be engaged to sell Shiseido's products. Huan means vigor, cai means style, and kong jian means space. SLC planned to open five such model stores in Beijing and Shanghai, to be designed based on comprehensive research on what Chinese women looked for in a cosmetics specialty store genuineness, friendliness, sincerity, and skin care knowledge. The stores would carry quality products, install skin analyzers to diagnose customers' skin condition scientifically, and employ knowledgeable beauty consultants to respond to questions about skin problems. There would be space tor customers to try products freely, and lessons on home beauty treatments would be conducted. The model stores would primarily carry eight brands encompassing 223 items, including brands that are imported directly from Japan such as Shiseido UV White and locally produced brands such as WHITIA, ASPLIR and Pure Mild China, as well as higher-end toiletries like AQUA IR and TESSERA.

The first of these stores selling only Aupres products opened in a shopping center in Beijing in March 2004. There were about 800 of these stores in August 2005, 1,700 stores in March 2007, and over 5,000 stores by end March 2011. In October 2006, Shiseido introduced a new brand called URARA, available only through the chain stores. The brand became an immediate success as Shiseido had identified another underserved need in the Chinese cosmetics market.

Realizing the importance of the growing middle-class consumers many of them residing outside the major cities in China Shiseido launched the DQ brand, sold exclusively through drugstores, in 2010. DQ carries a lower price point than Shiseido's key premium brands. In 2011. Shiseido announced a three-year plan for the period April 2011 to March 2014 under four main thrusts: global mega-brand, Asian breakthrough, new frontier, and customer-first policy. Under new frontier, Shiseido will commence full-fledged efforts to introduce e-commerce initiatives for the Chinese market. The aim is to expand points of contact with new customers in addition to existing sales channels in China. On September 15, 2010, Shiseido launched a website for Pure and Mild Sol, a new series of products developed specifically for the Chinese mail-order market under the Pure and Mild brand that is offered primarily at supermarkets, hypermarkets, and cosmetics specialty stores. The new line of 14 products ranging in price from RMB 90 to RMB 230 and incorporating environment-friendly features that include packaging made from bagasse paper are targeted at young, post-1980s consumers who prefer natural products. The mail-order business includes a new call center that handles customer enquiries and an online counselling service that allows professionally-trained call center staff to propose products and beauty techniques that are optimized for the skin types and needs of individual customers. Shiseido also seeks to boost customer satisfaction by accumulating information in a customer database for later analysis. This information enables it to identify customer needs and to respond to them.

COMPETITORS IN CHINA

China is the world's third largest cosmetics market, after the United States and Japan. The

Continue...

size of the Chinese cosmetics market was valued at around RMB 101.200 million (US$15,989 million) in 2010, and was expected to grow to RMB 112,000 million (US$17,696 million) in 2011. The market is expected to grow at a compound annual growth rate of 12 percent during the 201 1 to 2014 period. About 90 million urban women in China are will ing to spend about 10 percent of their income on beauty products. As a result, many cosmetics manufacturers and marketers have entered the China market.

Lancome started a concept store in West Nanjing Road in Shanghai in 2005. Outfitted with sculpted sofas and light pink walls, the outlet gives the customer a feeling of being in a space station. The company wants to give a sense of luxury, and a feeling of being away from the crowded departmental stores. It wants affluent housewives and "white collar princesses" to shop for its products in a discreet and comfortable setting. L'Oreal owner of the Lancome brand had acquired Yue-Sai, a woman's make-up brand and manufacturer founded by the Chinese-American television celebrity Yue-Sai Kan and is based in Shenzhen. L'Oreal also opened a research and development facility in Pudong, Shanghai, to understand Chinese consumers better. In the 32,000-square foot facility, about 43 researchers map the physical properties of Chinese hair and skin and conduct laboratory tests on various products. The facility also examines the application of Chinese medicine in beauty products.

Another competitor is Estee Lauder, which sells its Lauder, Clinique, La Mer. M.A.C., and Bobbi Brown brands in departmental stores throughout China. It has 50 counters for Lauder and Clinique, but three counters each for the other brands. In 1993, La Mer's counter at the Isetan store in Shanghai broke the record for first-day opening sales in China, even though its products were priced high at US$245 and it carried only three stock keeping units. In November 2005, its 16-ounce Creme dela Mer Grande which retails in China for US$1.700 had a 100 percent sell-through and a waiting list of 200 customers.

Procter & Gamble is another major player in the cosmetics market in China. Its brand, Olay, was the fastest growing brand in the mass market. The brand is distributed mainly through supermarkets and hypermarkets. Its higher-end brand, SKII. is distributed mainly through departmental store counters.

In an attempt to deal with rampant fraud in pyramid selling schemes in China, the Chinese government banned door-to-door selling in 1998. Avon Products, a major cosmetics manufacturer based in the United States, was selling its products in 6,300 boutiques and 1,600 counters in departmental stores when the ban was in force. The ban was lifted in 2005. In February 2006, Avon obtained the license for door-to-door selling and had recruited 350.000 sales representatives by the end of 2006. Another U.S. company, Amway, sold its cosmetics products through 188 company-run stores in China

Continue...

in 2007. Amway obtained its door-to-door selling license in December 2006 and envisaged that in future, door-to-door sales would account for most of its sales in China though it planned to expand its store network as well.

While foreign manufacturers may appear to have an upper hand in China's vast cosmetics market, local competition cannot be ignored. For example, the home-grown brand Herborist a state-owned company has 180 boutiques in 40 cities in China. It started its own outlets when it faced difficulties entering the departmental store channel, being an unknown local brand. The company managed to sell its products in a departmental store for the first time in 2002. In the same year, the company opened a Herborist Spa in Beijing. The brand emphasized its connection with traditional Chinese medicine and this had struck a chord with some Chinese consumers. The company opened its 100th outlet in 2005 and by 2010, it had 800 exclusive stores in 80 Chinese cities.

Source : Kerin, Hartley, Rudelius, Geok, Marketing in Asia, McGraw Hill (2009)

QUESTION 1

Identify the functions performed by the marketing and distribution channels for cosmetics products.

(Total: 20 marks)

QUESTION 2

(a) Identify the needs and wants fulfilled by Shishedo's products and services?
(10 marks)

(b) Identify FOUR (4) marketing objectives can Shishedo set for the next few years?
(10 marks)

(c) Explain what utilities are satisfied by Shishedo's offerings?
(10 marks)

(Total: 30 marks)

QUESTION 3

Discuss the FIVE (5) different ways in which Shishedo can communicate with its target audiences?

(Total: 25 marks)

QUESTION 4

Discuss the FIVE (5) factors that influence Shishedo's promotional mix decision?

(Total: 25 marks)

End of Page